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## MUNICIPAL OWNERSHIP—DISCUSSION

LEO S. ROWE: At the outset of this discussion it is important to bear in mind that in the larger cities of the United States municipal ownership of the more important public utilities is a practical impossibility. The constitutional restrictions on local indebtedness close the door to condemnation proceedings for the purchase of street railways, gas and electric light plants. The difficulties of the situation have been greatly increased by the fact that so many perpetual franchise grants have been made. Where the grants are not perpetual, the situation is so uncertain that endless litigation would precede municipal ownership even if the city were financially able to take over the plant. How can New York hope to take over the transportation system with the enormous capitalization? Or again, how will it be possible to take over the gas and electric light works with their two hundred and fifty millions of capitalization? Philadelphia, which still owns its gas works, will probably be unable to terminate the lease in 1907, owing to the fact that the city has almost reached the constitutional debt limit.

It will require many years to convince the American people that the constitutional limitations on municipal borrowing power no longer serve the purpose for which they were originally intended and even threaten to become obstacles to further progress.

But even with all these difficulties eliminated the question still presents itself whether there is any assurance that the transportation, gas or electric light service will be as efficient under municipal as under

private management. However strong the indictment against American public service corporations may be, especially in their influence upon the civic life of our larger cities, everyone will agree that they have shown a readiness to make improvements in equipment and motive power which has inspired the respect and even aroused the admiration of unbiased foreign observers. These changes often involved a considerable sacrifice of invested capital, but no hesitancy was shown whenever an ultimate economy in operating expenses could thereby be effected.

It is open to serious question whether, with our present methods of municipal finance, the improvements in the street railway service would have been made with anything like the same rapidity under municipal control as under private management. Our limited experience with public management has shown that municipal industries are constantly subjected to the danger of deterioration consequent upon the failure adequately to provide for their maintenance and improvement. The desire of the city council to make a "good showing" means that each year must show a handsome profit even if this profit is secured at the expense of the technical equipment of the works. Every councilman knows that to the tax payer of our American communities the tax rate is the test of good government. If the tax rate is low, no matter how inefficient municipal services may be, the government is regarded as satisfactory. Political leaders are aware that an attempt to increase the rate is almost certain political suicide. Every possible device is used to create the impression that taxes are relatively low. Municipal enterprises, whatever their character, are

expected to contribute their share toward reducing taxation; indeed the pressure on the city authorities is usually so great that where no net profits are forthcoming the accounts are so manipulated as to show fictitious profits. If there is the slightest danger of an increase in the tax rate the temptation of the council to use for general city purposes the amounts that should be assigned to renewal, repairs, and depreciation, is irresistible. The history of the Philadelphia gas works is a striking example of the dangers involved in this attitude of the council. The condition of the gas works at the close of the period of municipal operation was not due so much to technical mismanagement as to the failure of the council to make proper provision for repair and removal.

Furthermore, in the management of industries which are undergoing such rapid changes as the transportation system, the gas and electric light services, the public authorities must be prepared at any time to make a complete change in equipment involving the destruction of a large amount of invested capital. An elective council, subject to the constant pressure of the tax payer, must be prepared to bear all the criticism and assume all the responsibility for an increase in the city's indebtedness and a corresponding rise in interest and liquidation charges. Although these changes involve not only an improvement in service but an ultimate economy in operating expense, the immediate responsibility falls on councilmen elected for one or two years during whose term none of the economies will appear. They stand, therefore, under the cloud of this large expenditure without the offset of a corresponding benefit.

We can have no assurance of efficient management of public industries until our system of municipal finance has been made more elastic. Furthermore, the taxpayer must be made to appreciate the necessity of being guided by the same business principles in the technical management of municipal industries as in those managed by private companies. Until this change is made we must squarely face the fact that both the efficiency of service and the rate of improvement will be considerably less satisfactory under municipal management than under our present system.

If, therefore, the American people decide to embark upon municipal operation of public utilities, they do so with a clear appreciation of the requisites for success. Failure to observe the fundamental principles of business management will not only lead to financial disaster but to irreparable injury to the progressive development of our city life.

JOHN A. FAIRLIE: Mr. Howe's paper begins by announcing his belief that the problems of municipal government are primarily economic, while the bulk of his discussion is on the political aspects. He sets forth municipal ownership as a problem of national politics, whereas it has been the belief of reformers that municipal government should be kept, so far as possible, distinct from the national.

I mistrust Mr. Howe's belief that municipal ownership offers something like a panacea for municipal corruption. Evils do exist due to the control of certain capitalistic classes over the city government; and class rule always will be a democracy's danger. Municipal ownership may eliminate part of this danger, but, it

seems to me it will rather increase the danger from the criminal class. For these reasons the political discussion does not carry the full weight that Mr. Howe would give it.

The figures that Mr. Howe presents on the economic question should be analyzed more carefully. It is important to know whether the cost is paid out of earnings or by tax payers. My own investigations have led to the conclusion that in most cases American citizens have been moderately successful in the management of water works and lighting plants. I find very few cases where successes have been very marked or where there have been any serious failures.

I find myself in accord with what I take to be the main conclusion of Mr. Daniel's paper, that the case for municipal ownership is "not proven."

But in one or two points his attitude is more averse to municipal ownership than my own. The fact that the proposed municipal industries are or are not in accord with the historic activities of municipal government is a matter of interest, but the conclusion is not very important either way. The proposed municipal problems are however in accord with what were the oldest municipal functions. The old municipalities maintained markets, docks and wharves, and even their courts were self-sustaining institutions. The great municipal activities of to-day, supported by taxation, are of modern development.

The interest paid by the municipality on bonds for public services represents the whole return to capital; the interest on bonds paid by the private company, is but part of the return to capital. There must also be considered the dividends on stock, which is frequently

largely watered. The question is: "What is the difference between the whole return to capital under municipal and private ownership?" And here we are again forced to give the verdict, "not proven." Until the private corporations put their accounts into such shape that we can know what they invest we cannot be in a position to compare the financial results of city management with private management. My own impression is that the difference is rather more in favor of municipal management than Mr. Daniels pointed out.

The practical issue for the future is between municipally controlled private management and a limited sort of municipal ownership. Municipalities have not the funds in hand, and those who furnish them must have their property rights protected. Cities should not be authorized to borrow at the risk of the taxpayers; but they should be authorized to borrow in the same way private corporations borrow, by issuing bonds on the proposed works, such as the proposed street railway certificates in Chicago. If a city government is in bad hands it will find difficulty in floating bonds of this kind; if its management proves a failure, the bondholders will step in and take possession and the municipal management will cease. My own position is that it would be well for some cities to experiment in that way, and until we have further experimentation we cannot make any general dogmatic assertion either in favor of or against municipal ownership in this country.

MILO R. MALTBY: The point has been made, regarding municipal ownership in Great Britain, that depreciation charges are entirely too low. But nothing is said about sinking funds and the security they give.

For municipal plants, after paying operating expenses, fixed charges, taxes, etc., (all plants in Great Britain pay taxes), the municipalities provide a sinking fund. Now if you provide a sinking fund which will pay off the bonds when the works for which these bonds have been issued cease to be of value, you have met depreciation. What reason is there for a depreciation fund in addition? But a great many plants in addition carry a depreciation fund, to be upon the safe side. To speak of this fund and call it inadequate, without considering sinking funds and the annual expenditures for maintenance and repairs, is unsound.

There are two or three reasons why public supervision is not likely to bring about the results sometimes claimed. You are dealing with industries that are not competitive. There are not more than ten or fifteen cities in the United States in which there are gas works supplying the same areas, and even in these cities there is seldom any genuine competition because these companies have districted the city or come to an agreement. The same is true of electric lighting. In the case of street railways, there are sometimes several companies; but the competition idea is on the wane and rapidly giving way to monopoly.

To this fact New York is witness. The surface roads, elevated roads, and underground roads of Manhattan are all in control of one group of men; and competition has been eliminated from the field of urban transportation. The gas and electric light plants—two industries which ordinarily are competitive—are now under one control. Can this situation be met by a policy of public regulation—a policy based upon the theory of competition? Suppose a franchise is put up at auction and



the highest bidder gets it. The experience of New York shows that this suggested remedy is not successful. In one case they began with offers of moderate compensation, but ran up until they reached one hundred per cent of the gross receipts. This was not enough, and they ran up to several hundreds, with a final award to one company. The matter was carried to the courts, and the courts said, "You cannot pay more than one hundred per cent"; so the company who first bid one hundred per cent got the franchise. Did it build the railway? No! The franchise was laid away in its vaults, and was not operated for years, not until an arrangement was made with the city whereby a certain small percentage of the receipts was substituted for the 100 per cent.

If an important street railway franchise in the heart of the city of New York were auctioned today, who would bid for it? It can be of little use to an independent company; consequently the only persons interested enough to pay anything for it, are those who now control the entire transit situation on Manhattan Island, and these persons can give just what they please. No one is able to compete, and the city must take what they are willing to give.

Suppose we have some other systems of supervision and regulation. How are we to compel the company to come to our terms? The best system of regulation that has been yet provided (that in England in the gas industry) provides, among other things, for a limited dividend and a limited price, and an increase of the dividend as the price decreases, known as the sliding scale. It works well in the beginning; but after one generation has passed, the industry has been revolu-

tionized, the terms become unsuited to the new conditions, and the interests of the public go without adequate safeguard.

They tried in Toronto what they thought an excellent system. What was the result? Litigation from the time it was put in force to the present; and yet they cannot make the companies live up to the requirements of the grants.

J. DORSEY FOREST: Like Mr. Daniels, I think it very desirable not to introduce a quibble on the distinction between municipal ownership and municipal management; yet the distinction may sometimes be quite important. When we are aiming at municipal ownership and management, we desire two things: one to conserve to the public the unearned increment of the franchise which is granted, and the other to obtain good service. In almost all cases of American municipal management which have been commended, we find that the enterprises are of a character to require but little management; that is, we find that municipal ownership in these cases obtains for the city the value of the franchise, but does not entail a kind of management which our cities are not, at present, adapted to exercise. Mr. Daniels referred to the Cincinnati Southern Railway, which presents none of the problems involved in our discussion. The same may be said of dock properties and market houses. These run themselves. They are very much simpler of management than gas and electric light plants or street railways. If we can obtain the results aimed at by those who advocate municipal ownership, without burdening our public authorities with tasks for which they are

not at present well fitted, the whole point will be gained.

Some seventeen years ago, the Indianapolis Gas Company had obtained certain natural gas rights and had brought the gas down to the city. It then attempted to hold the city up for a higher rate than that authorized in the franchise already granted. Public indignation was such that it was possible to finance and put into operation a popular company which agreed, among other things, to operate at a maximum of eight per cent. on the investment; and, after returning the principal invested by private capital to the owners of that capital, to furnish gas at cost. About the time that the principal was returned to the investors, natural gas failed; and thus the experiment did not receive a complete trial. Nevertheless, the amount saved to consumers by this independent company was several millions of dollars; and on the financial side the enterprise was abundantly successful. The full eight per cent. dividends were paid; the par of the stock was returned in full; since the company has been put into a liquidation the stockholders have received a dividend of forty per cent.; and they will receive an additional dividend of fifty or sixty per cent. within the next few months. On account of a technical error in the original charter of the company, the courts restrained it from supplying artificial gas at cost (as its directors desired to do) and ordered it to wind up its affairs.

Since that decision, certain public-spirited men in Indianapolis have formed a new corporation to take over the property under an option held by the city and transferred to this new company. The franchise granted to these men provided for an operating com-

pany which will acquire the existing pipe-lines, construct a modern plant, supply gas of high heat units but low candle-power at sixty cents per thousand cubic feet, pay a maximum dividend of ten per cent., return the par of the stock to the investors, and then transfer the whole system to the city. It may then be leased or directly operated, as conditions justify. Barring certain improbable court decisions, these results will surely be accomplished. Both a franchise and a valuable plant will revert to the city. Meanwhile, the consumers will receive cheap gas, and many small investors—who will be consumers—will have an opportunity to make a profitable investment.

ALBERT SHAW: I have never been an advocate of municipal ownership (though sometimes quoted as being one), and I have never been an opponent. In Germany, where municipal government is competent, it matters very little whether a private company puts up the capital and goes through the experimental stages of development of plants or whether the city itself is willing to finance the undertaking. There is competent engineering talent available in either case as well as sound business management. It is, however, always advantageous to have the opportunity of recourse from one method to another. It simply is a question whether or not under local circumstances it is better to grant to private or municipal management. In either case you are probably going to have an efficient situation in which no one forgets that the municipality will aim to dominate its public service.

In England it seems to me the financial discussion at the present time of what is called municipal trading is

a little to one side of the real question. The English cities have got to be studied historically. They had fallen into a frightful state of unsanitation. It was the death rate and the horrid condition of women and children, inadequate homes, the wretched condition of slumdom that England and Scotland confronted.

Good and capable and practical, but not imaginative, business men took hold of the matter. They wrought under the direction of health officials. Municipal water became a necessity for health. The supply of light deserved consideration. The communities determined to regenerate themselves. In that process of regeneration they resorted very largely to municipal ownership of lighting plants with success.

In our country we are confronted with such facts as Mr. Howe set forth,—the tying up and domination of our municipal corporations by immensely powerful private companies. Charter limitations have been created which embarrass municipalities in their attempt to render to the community ordinary and necessary functions. And now there is a rebellion to emancipate the municipal corporation and to give it a chance to do what it desires to be for the welfare of its people. The people of this country are gradually determining that the municipal corporation must at least dominate its own services, whether through the supervision or control of private companies held well in check, chartered in order to render public services belonging to the people, or whether the people are to find, in order to maintain favorable conditions they must undertake these things directly. We are in a seething process of experiment from one end of the country to the other. I wish these experiments good luck. I know that ex-

periments here and there honestly conducted by efficient men are bound to act favorably upon public opinion.

JEREMIAH W. JENKS: Personally I welcome the tendency toward municipal ownership and operation, but largely for the reason that Dr. Shaw has just given. It is extremely important that we get much more experimental knowledge than we have now. We can get that best through having a good many of our municipalities in different situations make the attempt. The political and economic conditions in different cities are so varied that in some cases municipal ownership and operation may be successful, in others it is likely to prove a failure. From experiments made in different places we shall learn what conditions will produce successful ownership and operation and what will lead to failure.

It seems to be the assumption on the part of most people who favor municipal ownership that thereby we shall very largely escape political corruption. But the question of political corruption is a matter of human nature rather than of form of government. The people who take the lead in politics and in business, the dominating personalities, are few. Most of us are mere followers. The very strong men now are largely in the employ of our so-called municipal monopolies. It is not going to change the personnel very much if we adopt municipal ownership. We shall have the same men as leaders. The people who are dominating now are going to dominate then, and if their interests and motives are selfish then as they are now we shall have the municipality through its government used for the benefit of private individuals as now it is used by private corporations. We should always

try to get the dominating personalities working in the interest of the public, but we are not to assume they will do so simply because we put them into office. We have sometimes had them when holding office use the funds of the treasury for their own private interests. We should see to it that the public in general knows its own interests, its own wishes, so well that it shall compel these dominating personalities, whether in the employ of the city or of a private corporation, to work in the interest of the public.

RICHARD T. ELY: I want to call attention to the difficulties in the way of control which are of a personal nature. In some respects control is easier in a large city than in a small city; in other respects more difficult. Now what does control mean? In a city of twenty-five thousand inhabitants, let us say a city like the one in which I now live, Madison, let us suppose I want to take active part in municipal government, and that we have a system of private electric light or gas company which is to be controlled. The electric light plant is not merely an impersonal thing. We say "a plant", "a company", "a corporation", but it may mean that I am to put myself against a man who sits opposite me in church, who has been very kind to me, perhaps is the god-father of my little boy. Now it is easy to say you must not have any regard to personal considerations: you must fight your own father or your father-in-law, your brother, or your brother-in-law. But this means engaging in perpetual controversy with people among whom you live, with whom you are thrown, and upon whom you are dependent. It is rather serious when you put it that way. I do not say you should not do it, I do not say we should not all be of heroic mold.

Now you may say if it is proposed to municipalize one of these plants, you must also engage in controversy with personal friends. If it is a question of purchase it is a fight. It is a test for all. I take off my coat and fight with my friends for six months. The relations may be strained, but afterwards we hope we can restore them.

But when it comes to control, day after day, year after year, to be engaged in controversy with men with whom you have ties of all sorts it is a serious matter. In larger cities such questions have a less personal nature (I do not say they have none) than in cities of smaller size. I would like people to think what control means, not in the abstract alone, but in the concrete.

F. B. THURBER : There are two sides to most questions and municipal ownership is no exception to this. There are situations in countries having a different form of government from ours, where graft is not an epidemic disease, and where public ownership and operation may be successful, but even there opinions differ. In Great Britain it has run its course and there is a reaction in public opinion against municipal trading, as it is called there, just at a time when many well-meaning persons in this country, as well as the professional socialists and the yellow journals are advocating it here.

In a country with universal suffrage it is desirable to limit the number of public officials to the smallest possible number for political reasons; and there are also economic reasons which apply especially to lighting, traction and other public service corporations which are large buyers of materials, employ large numbers of persons, and require a high order of administrative



ability; indeed water, a natural product, which runs down hill and is distributed with a minimum of labor and expense, is about the only public necessity justifying public ownership in this country, and even in this there are exceptions.

Nothing can be truer as a rule than "public ownership waste exceeds corporate profit"; supplement this with the even more important political consideration and thoughtful citizens may well hesitate to favor the present socialistic fad of municipal ownership. Of course its advocates play upon prejudice and claim economies for public ownership which do not exist.

Public officials where municipal plants have been established are naturally interested in making a good showing and holding their easy jobs; in many instances their bookkeeping omits interest, taxes, depreciation, sinking fund for renewals or improvements, and other items which a private corporation must recognize. The tax-payer is a convenient beast of burden upon which to unload deficits and he in turn unloads it on rent-payers where he can. Under public ownership new inventions, improvements, and extensions are ignored. Under private ownership the best professional talent is employed at salaries unheard of in public employment, and all these improvements are at once utilized, giving the public an up-to-date service.

Individual initiative and energy, coupled with the coöperation of many small partners in corporations has made this country great and I cannot believe that the socialistic propaganda will prevail if the facts are properly presented to the jury of American public opinion.